

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Rate Adjustment Due to Extraordinary  
or Exceptional Circumstances

Docket No. R2013-11

NOTICE OF INQUIRY ON PROPOSED METHODOLOGY  
TO CALCULATE ADJUSTMENT TO SURCHARGE CAP  
FOR FOREVER STAMPS (PIHOP ADJUSTMENT)

(Issued November 5, 2014)

I. INTRODUCTION

This Notice of Inquiry seeks comments from interested persons on how to best account, for purposes of the exigent rate surcharge revenue calculation, for Forever stamps that were purchased prior to the exigent surcharge taking effect, but used during the surcharge collection period. This Notice of Inquiry outlines the methodology suggested by the Postal Service and proposes a different methodology that attempts to address concerns raised by other parties. Filed simultaneously with this order, the attachment “Q3 Example.xls” shows the proposed calculation in the same format as the Postal Service’s proposed adjustment.

II. REVENUE COLLECTION REPORT: FOREVER STAMP ACCOUNTING

In its response to Order No. 2075<sup>1</sup> the Postal Service filed its Revenue Collection Report, estimating the amount of surcharge revenue collected. The Postal Service employs the methodology outlined by the Commission in Order No. 1926.<sup>2</sup> The surcharge collected in each quarter is calculated by multiplying the billing determinants volumes for each class by

---

<sup>1</sup> Response of the United States Postal Service to Order No. 2075, May 15, 2014 (Revenue Collection Report).

<sup>2</sup> Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1936).

the surcharge. The surcharge is calculated as the difference between the Docket No. R2013-11 prices and the Docket No. R2013-10 prices. For example, the surcharge for First-Class single-piece letters is 2 cents, the difference between the Docket No. R2013-11 price of 49 cents and the Docket No. R2013-10 price of 47 cents.

In the Revenue Collection Report, the Postal Service contends that this methodology overstates the surcharge collected because some volume mailed since the surcharge went into effect was sent using Forever stamps purchased prior to the effective date of the exigent surcharge. It estimates that the exigent surcharge revenues would be over-reported by \$119.39 million. Consequently, the Postal Service developed an adjustment to reflect the effect of Postage in the Hands of the Public (PIHOP). Revenue Collection Report at 2.

### III. POSTAL SERVICE METHODOLOGY AND RESPONSES

The Postal Service developed a methodology, which it calls the “PIHOP Adjustment” as described in the following:

To arrive at the PIHOP Adjustment amount, the Postal Service used its estimate of the number of Forever stamps purchased before January 26, 2014 (at prices below 49 cents), and not yet used. That estimate is 5,969,565,000. (It is important to note that the stamps which are anticipated to *never* be used have already been deducted from this estimate.) This number of Forever stamps is then multiplied by \$0.02, which is the value of the Exigent surcharge assuming that the Forever stamps are used for First-Class Mail single-piece mailpieces. The result is \$119,391,300.

*Id.* at 2, n.8.

The Postal Service allocates one-sixth of \$119,391,300 to each of the first six reporting periods, resulting in an adjustment of \$19,899,000 per quarter. *Id.* at 2-3.

Commenters raise concerns regarding the PIHOP Adjustment. They contend that the adjustment does not account for Forever stamps purchased during the surcharge period but

redeemed after the end of surcharge period.<sup>3</sup> The Presiding Officer sought additional data to evaluate the Postal Service and commenter contentions.<sup>4</sup> In response to POIR No. 15, the Postal Service provided revenue from Forever stamp sales, by month.<sup>5</sup>

#### IV. COMMISSION PROPOSED METHODOLOGY

The data provided by the Postal Service in response to POIR No. 15 appear to isolate the revenue (and thus volume) from Forever Stamps sold during the exigent surcharge period. A straightforward solution would be to calculate the surcharge collected from Forever stamps by quarter by multiplying the quarterly volume of Forever stamps sold while the surcharge was in effect (calculated by total quarterly Forever stamp revenue divided by 49 cents) by 2 cents and subtracting the quarterly volume of Forever stamps from the quarterly billing determinants volumes used to calculate the amount of surcharge collected. This solution avoids double counting the surcharge collected from mail pieces that were sent with Forever stamps. However it is not feasible to use because data on Forever stamp usage by mail category are not available.

As an alternative, one could use the surcharge revenue collected from Forever stamp sales as a substitute for the calculation of surcharge collected from stamped First-Class single-piece letters. This substitution affects the accuracy of the calculation of surcharge collected in two important ways. First, Forever stamps are used not only for mailing First-Class single-piece letters but also for mailing flats and parcels in First-Class and Package Services. By not adjusting the billing determinants for those categories, the amount of surcharge revenue collected may be overstated. Second, substituting Forever stamp

---

<sup>3</sup> See Comments of MPA—The Association of Magazine Media, Alliance of Nonprofit Mailers, Association for Postal Commerce and Direct Marketing Association, Inc. On Order No. 2089, July 28, 2014 at 4-6; Public Representative Comments Addressing Notice and Order on the Postal Service's Exigent Surcharge Removal Plan, July 28, 2014, at 14-15; and Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Reply Comments on Report of the United States Postal Service Regarding Surcharge Removal Plan, August 26, 2014, at 4-5.

<sup>4</sup> See Presiding Officer's Information Request No. 15, September 19, 2014 (POIR No. 15).

<sup>5</sup> Response of the United States Postal Service to Presiding Officer's Information Request No. 15, September 26, 2014.

sales for all stamped First-Class single-piece letter volume in the surcharge calculation understates the surcharge collected from First-Class single-piece letters because not all stamped First-Class single-piece letters were sent with a Forever stamp. The Quarterly Statistics Report identifies stamped mail by category.<sup>6</sup> In Quarter 3 of FY 2014, approximately 83 percent of stamp sales were Forever Stamp Sales, therefore the difference between stamped mail and mail pieces bearing a Forever stamp is significant.

The first issue identified above has the effect of overstating the surcharge collected. The second issue errs on the side of understating the surcharge collected. Given that the issues somewhat offset, and the Commission does not have a superior methodology to offer, this solution appears reasonable given the available data. The table below shows the results of the proposed methodology for Quarter 3, FY 2014.

Table 1  
Surcharge collected from First-Class Mail, Quarter 3, FY 2014  
(000)

No adjustment	USPS Methodology	Proposed PRC Methodology <sup>7</sup>
\$301,658	\$281,759	\$288,534

---

<sup>6</sup> Quarterly Statistics Report, Quarter 3, FY 2014, August 21, 2014.

<sup>7</sup> See "Q3 Example.xls" filed with this Notice.

## V. COMMENTS

Pursuant to 39 C.F.R. § 3020.34(d), the Commission is issuing this Notice of Inquiry to afford all interested persons an opportunity to provide comment on the proposed methodology for handling forever stamps in the surcharge calculation. Respondents are encouraged to fully develop any proposed modifications. Comments are due November 19, 2014.

Shoshana M. Grove  
Secretary